

Function 500: Education, Training, Employment, and Social Services

Function 500 includes funding for the entire Department of Education, programs at the Department of Labor including employment and training, and social services programs within the Department of Health and Human Services.

Overall, the budget provides \$65.4 billion for 2002 for appropriated programs in this function, \$2.1 billion over the 2001 freeze level. As noted below, the budget increases funding for 2002 for appropriated education programs by \$2.5 billion over a freeze. As a result, all other programs in the function must be cut by over \$350 million below a freeze at the 2001 level. Most notably, Department of Labor programs in this function are cut significantly. Overall funding for social services programs in this function roughly maintains current purchasing power.

Education

For 2002 the budget provides \$44.5 billion for appropriated programs for the Department of Education. This represents an increase of \$2.5 billion (5.8 percent) over the 2001 freeze level. The Administration's claims of an 11.5 percent increase are misleading and inaccurate. Such claims take credit for \$2.1 billion that Congress already provided for 2002 in last year's appropriations bill. The budget's 5.8 percent increase over a freeze at the 2001 level is less than half of the size of the 13 percent average increase that Congress has provided over the last five years. The budget resolution passed by bipartisan vote in the Senate provides over \$300 billion more for Function 500 over ten years than the President's budget, allowing for substantially greater increases for education. The President's budget increases funding for certain education programs, but these increases are funded in part through cuts to other education programs.

- ! ***Budget Provides Increases for Some Elementary and Secondary Education Programs***—The budget increases appropriated funding for elementary, secondary, and vocational education by \$1.9 billion over the 2001 freeze level. This is less than one-fifth of the increase for 2002 (\$10.2 billion) for elementary and secondary education programs authorized by the Better Education for Students and Teachers Act (S. 1) approved unanimously by the Senate Health, Education, Labor, and Pensions Committee. Relative to a freeze at the 2001 level, the Bush budget increases Title I grants to Local Educational Agencies by \$459 million and Impact Aid to school districts affected by federal activities by \$137 million. The budget replaces existing reading and literacy grants with a \$900 million Reading First Initiative, and provides an increase of \$389 million for assessment, including the National Assessment of Educational Progress (NAEP).

- ! ***Replaces Class Size Reduction and Eisenhower Professional Development Programs*** — The budget eliminates \$1.6 billion in funding for reducing class sizes and \$564 million for the Eisenhower Professional Development Program for teachers. It creates a new formula grant program for improving teacher quality, funding for which is \$2.6 billion for 2002.
- ! ***Modest Increase for Special Education (IDEA)*** — The budget increases funding for the Individuals with Disabilities Education Act (IDEA) Part B grants to states by \$1.0 billion for 2002. This level of funding puts the federal contribution at 17 percent of the national average per pupil expenditure, less than half of the 40 percent “full funding” contribution level established in the original IDEA legislation.
- ! ***Small Increase for Student Aid*** — The budget increases funding for Pell Grants by \$1.0 billion for 2002. This amount allows for only a \$100 increase in the size of the maximum Pell Grant award, from \$3750 to \$3850. During his campaign, the President promised to increase the maximum Pell Grant award for first-year students to \$5100. The budget freezes other student aid programs, including work study, Perkins loans, Supplemental Education Opportunity Grants, and Leveraging Educational Assistance Partnerships (LEAP).
- ! ***Key Programs Fail to Keep Pace with Inflation*** — The budget freezes funding for the Safe and Drug-Free Schools and Communities Program at the 2001 level of \$644 million. Funding is also frozen at the 2001 level for after-school programs; the 21st Century Community Learning Centers program is funded at the 2001 level of \$846 million. This program provides after-school learning opportunities to enhance student achievement. Neither of these programs receives increases needed to keep pace with inflation.
- ! ***Budget Eliminates Funds for School Renovation*** — The budget eliminates the \$1.2 billion provided in last year’s budget for school renovation. This cut comes at a time when more than \$100 billion is needed, according to GAO, to bring public elementary and secondary classrooms into adequate condition.
- ! ***Budget Cuts Innovation and Enrichment*** — The budget consolidates 10 existing programs for educational innovation and enrichment into a new Choice and Innovation State Grant program. Funding for the new program is cut by \$462 million below the 2001 freeze level for the existing programs.
- ! ***Budget Cuts Educational Technology Funding*** — The budget provides \$817 million for 2002 for educational technology grants to states. This amount is \$55 million less than the 2001 level of \$872 million, a cut of 6.3 percent below a freeze at the 2001 level.

- ! ***Budget Cuts Funding for Some Higher Education Programs*** — The President's budget for the Office of Postsecondary Education provides \$1.7 billion for 2002, \$188 million less than the amount appropriated for 2001, a cut of 9.9 percent below a freeze at the 2001 level. Within the Office of Postsecondary Education, the budget cuts funding for the Fund for the Improvement of Postsecondary Education (FIPSE) by 65.1 percent relative to a freeze at the 2001 level, and funding for the GEAR-UP program (Gaining Early Awareness and Readiness for Undergraduate Programs) by 23.1 percent relative to a freeze at the 2001 level.
- ! ***Budget Cuts Funding for Vocational and Adult Education Programs*** — The budget reduces funding for appropriated programs for Vocational and Adult Education from the 2001 level of \$1.826 billion to \$1.802 billion. This is a cut of \$24 million below a freeze at the 2001 level, and a cut of \$41 million below the amount needed to maintain services at the current level.

Employment and Training

The budget provides \$5.1 billion for appropriated programs for training and employment services in this function. This amount reflects a \$541 million (9.5 percent) cut below a freeze at the 2001 level for these programs.

- ! ***Dislocated Workers*** — The budget provides \$1.4 billion for 2002 for job training services for dislocated workers, a cut of \$207 million (13.0 percent) below the amount appropriated for 2001. The dislocated workers program provides employment services to those workers who have been permanently separated from their jobs, including workers who have lost their jobs because of mass layoffs and plant closures.
- ! ***Adult Training*** — The budget decreases funding for standard adult employment training services to \$900 million, a cut of \$50 million (5.3 percent) below a freeze at the 2001 level.
- ! ***Incumbent Workers*** — The budget eliminates all \$20 million of specified funding for job training for incumbent workers. This program helps workers to upgrade their skills, productivity, and wages.
- ! ***Youth Activities*** — The budget reduces funding for job training services for youth to \$1.0 billion, a reduction of \$147 million (12.8 percent) below the amount provided for 2001. This program provides educational and skill development services to young people to promote their employability.

- ! ***One-Stop Career Centers*** — The budget provides \$134 million for One-Stop Career Centers, a reduction of \$16 million (10.7 percent) below a freeze at the 2001 level. The One-Stop Centers integrate the delivery of employment and education services, and thus form the fundamental infrastructure for the nation's employment and training system.
- ! ***Other Training and Employment Services*** — The budget freezes funding for Youth Opportunity Grants, and for training and employment services for Native Americans and Migrant and Seasonal farmworkers. Funding for these programs does not increase to keep pace with inflation.

Labor Law Enforcement

- ! ***International Labor Affairs Bureau*** — The budget cuts funding for the International Labor Affairs Bureau (ILAB) by 51.6 percent below the 2001 freeze level, providing \$72 million for 2002. ILAB monitors worker rights and works to implement core labor standards in other countries.
- ! ***Employment Standards Administration*** — The budget proposes to shift administrative costs of the Federal Employees' Compensation Act from the Employment Standards Administration (ESA) to other federal agencies. The proposed surcharge on the other agencies totals \$80 million. The budget assumes the approval of this surcharge, and thus reduces funding in this function for Salaries and Expenses for the Employment Standards Administration by \$79 million to \$282 million. In the event that the surcharge were not approved, the \$79 million reduction would become a cut below the 2001 freeze level. ESA enforces federal labor laws, including those concerning wages and working conditions.

Social Services

The budget provides \$10.5 billion in funding for appropriated social services programs for 2002 in this function. This level is slightly above the amount needed to maintain constant purchasing power.

- ! ***Services for Seniors*** — The budget provides \$1.1 billion for 2002 for appropriated programs in the Administration on Aging. This amount is \$5 million below a freeze at the 2001 level, and \$28 million (2.5 percent) below the level needed, according to CBO, to maintain current services. The budget freezes funding for several programs including preventative health services and meals for seniors provided in congregate settings such as senior centers.

- ! **Community Services Programs**— The budget cuts community services programs by \$28 million (4.1 percent) below the \$683 million provided for 2001. The budget eliminates funding for the Community Food and Nutrition program, the Rural Community Facilities program, and the National Youth Sports program. It freezes funding for the Community Services Block Grant at the 2001 level.
- ! **National Service**— For 2002, the budget provides \$728 million in appropriated funding for core programs of the Corporation for National and Community Service, a cut of \$33 million (4.3 percent) below a freeze at the 2001 level of \$761 million.
- ! **Head Start**— The budget provides \$6.3 billion for Head Start for 2002, an amount sufficient to maintain purchasing power for current programs but not to expand enrollment. The most recently available figures indicate that roughly half of the children aged three and four who are economically eligible for the program do not receive Head Start services. The budget notes the Administration's intention to move the Head Start program in some future year from the Department of Health and Human Services to the Department of Education.
- ! **Mandatory Initiatives**— The budget increases spending for the Promoting Safe and Stable Families Program by \$200 million for 2002. This program helps to create stable living situations for children with their biological families, if possible, or with adoptive families. The budget also provides \$60 million for 2002 to fund education and training vouchers for children who are aging out of the foster care system.
- ! **Social Services Block Grant (Title XX)**— The budget provides \$1.7 billion for the Social Services Block Grant (SSBG) for 2002, a cut of \$25 million dollars below a freeze at the 2001 level. The National Governors' Association has requested funding of \$2.38 billion for 2002, as originally allowed by the 1996 welfare reform legislation. The Strengthening Working Families Act recently introduced by a bipartisan group of Senators would set SSBG funding for 2002 at this \$2.38 billion level. SSBG provides states with flexible funds that can be used to meet their most pressing social services needs. These funds are used for services including child day care, services for the disabled, services for the elderly, employment, housing, and transportation.

Cultural Agencies

- ! ***No Real Increases for Major Agencies*** — The budget provides \$105 million in appropriated funds for the National Endowment for the Arts and \$121 million in appropriated funds for the National Endowment for the Humanities. Both of these figures are slightly below the amount needed, according to CBO, to maintain current services. The budget maintains current services for the Corporation for Public Broadcasting by providing \$370 million for 2002.

Changes to Advance Appropriations

For some programs in this function, the budget makes changes to the practice of advance appropriations. An advance appropriation designates funds for a fiscal year beyond the fiscal year for which the appropriations bill is passed. Current practice charges these funds to the fiscal year for which they are provided, not to the fiscal year for which the appropriations bill is passed.

The Administration proposes to change this practice for many, but not all, programs that have received advance appropriations in the past. For the programs affected, the Administration will not request advance appropriations, but will instead request that all appropriations for the current budget cycle be made available in fiscal year 2002. To avoid as a result of this change the appearance of a huge increase in 2002 discretionary budget authority, the budget proposes a one-time scoring shift. Advance appropriations already designated for 2002 will be moved from 2002 discretionary budget authority to 2002 mandatory budget authority.

This change increases mandatory and overall budget authority for 2002 by \$18.4 billion in this function. The change has no effect on actual program funding and, as a result, has no effect on budget outlays.

Function 550: Health

In Function 550 (Health), appropriated programs, also called discretionary, include most federal programs that provide direct health care services. Other health programs in the function fund national biomedical research, protect the health of the general population and workers in their places of employment, provide health services for under-served populations, and promote training for the health care workforce. For 2002, funding for the National Institutes of Health (NIH) represents over half (56 percent) of all discretionary funding. The major mandatory programs in this function are Medicaid and the State Children's Health Insurance Program (S-CHIP) which together account for most of the mandatory spending in this function.

Overview

- ***Appropriated Programs*** — For appropriated programs in Function 550 (Health), President Bush's budget provides \$41.0 billion in budget authority for 2002, an increase of \$2.1 billion (5.4 percent) over the 2001 level. Virtually all of the net increase is slated for the National Institutes of Health (NIH). For 2003, the budget increases discretionary funding by \$4.7 billion over the 2002 level. The majority of this net increase is also for NIH. For 2004 and thereafter, (2004-2011), the budget maintains aggregate funding levels for appropriated programs.
- ***Mandatory Programs*** — For mandatory programs, the budget increases projected spending by a net of \$10.7 billion for 2002, relative to current law. Over ten years (2002-2011), the budget increases projected spending by a net of \$45.6 billion. The spending increase is the result of two initiatives, the so-called "immediate helping hand" prescription drug proposal and the refundable portion of the health insurance tax credit. The increase is offset by another initiative that cuts projected Medicaid spending by closing a loophole in current law. (These proposals are explained in greater detail below.)

Medicaid

- ***Medicaid Cuts*** — The budget cuts Medicaid spending by \$606 million in 2002 relative to current law. Over ten years (2002-2011), Medicaid spending is \$17.4 billion lower than it would otherwise be. The budget includes additional constraints on the upper payment limit (UPL). Last year, Congress tightened these payments to prevent states from increasing their federal Medicaid payments without increasing health services. The budget would further tighten the UPL regulations. The House explicitly rejected this Medicaid cut when it adopted the 2002 budget resolution.

State Children's Health Insurance Program (S-CHIP)

- ***Revamping S-CHIP and Medicaid*** — Although no details are provided, the budget alludes to replacing Medicaid and S-CHIP with private health insurance through health care tax credits and other unspecified proposals related to flexibility for the states. The guarantee of core benefits provided under Medicaid and S-CHIP are not discussed. No legislative proposals are included in the budget for this purpose.

Temporary Block Grant for Prescription Drug Assistance for Seniors

- ***Block Grant for Prescription Drugs for Low-Income Seniors*** — The budget increases mandatory spending by \$11.2 billion in 2002 relative to current law and \$43 billion over four years (2002-2005). This spending reflects the President's so-called "immediate helping hand" temporary block grant that provides funds to the states for prescription drug assistance for seniors. This block grant is in lieu of a Medicare prescription drug benefit. Additional funds for an unspecified drug benefit and undefined Medicare reform (\$110 billion over seven years (2005-2011)) are included in *Function 570 (Medicare)*. These two pools of funds constitute the entire "immediate helping hand" initiative.

Health Programs Subject to Annual Appropriations

- ***Boost National Institutes of Health (NIH)*** — For 2002, the budget increases NIH funding by \$2.8 billion over the 2001 enacted level. This increase is the fourth installment in a five-year commitment to double the NIH budget from 1998 through 2003. Although it is a substantial increase for NIH, it falls short of the \$3 billion increase necessary to meet the goal of doubling funding in five years. For 2002, NIH funding represents over half (56 percent) of all discretionary funding.
- ***Freeze Ryan White AIDS Programs*** — For 2002, the budget freezes Ryan White AIDS programs at the 2001 level of \$1.8 billion. With the advent of effective therapies, the number of persons seeking AIDS Drug Assistance Program (ADAP) assistance has more than doubled since 1996. The budget's level funding of Ryan White programs, especially ADAP, comes at a time when many states are implementing program restrictions or eligibility limits because of budget shortfalls.

A recent survey (Kaiser Family Foundation, March 29, 2001) of ADAPs shows that these programs are key in providing HIV-related drugs to under-insured and uninsured persons living with HIV/AIDS. Ryan White programs fill the gaps for many with HIV/AIDS who do not have insurance and cannot qualify for Medicaid.

- ***Freeze Title X Family Planning*** — The budget freezes Title X family planning programs at the 2001 level of \$254 million for 2002.
- ***Cut Maternal and Child Health (MCH) Block Grant*** — For 2002, the budget funds the MCH block grant at \$709 million, a cut of \$5 million below the 2001 freeze level. The MCH block grant supports federal and state partnerships to develop service systems to address the critical challenges in maternal and child health.
- ***Freeze Healthy Start*** — The budget freezes Healthy Start at the 2001 level of \$90 million for 2002. The 2001 level was also freeze-level funding so the actual purchasing power of this program is reduced for a second year in a row by this budget. The Healthy Start program supports programs to reduce low birth weight, inadequate prenatal care, and other factors contributing to infant mortality, in targeted high risk communities.
- ***Cut Health Professions Training Programs*** — For 2002, the budget cuts health professions training by \$213 million (60.3 percent) below the 2001 freeze level.
- ***Eliminate Community Access Program (CAP)*** — The budget eliminates the community access program for 2002, a cut of \$125 million for 2002. CAP funds grants to coordinate health care services to the under-insured and uninsured offered by community providers such as public hospitals, community health centers, and disproportionate share hospitals.
- ***Freeze National Health Service Corps (NHSC)*** — For 2002, the budget essentially freezes the NHSC at the 2001 level. It funds NHSC at \$126 million, \$1 million over the 2001 freeze level. Through its scholarship and loan programs, the NHSC places physicians in medically under-served areas which often have a high rate of uninsured persons. NHSC physicians are often the mainstay of the health care workforce for institutions, such as community health centers and disproportionate share and public hospitals, that serve the under-insured or uninsured.
- ***Cut Children's Hospital Graduate Medical Education (GME)*** — For 2002, the budget cuts pediatric GME by \$35 million (14.9 percent) below the 2001 freeze level. Funding drops from \$235 million for 2001 to \$200 million for 2002. These funds are currently used by children's teaching hospitals to offset the higher costs of providing advanced training to pediatricians.
- ***Boost Community Health Centers*** — For 2002, the budget funds community health centers at \$1.3 billion, an increase of \$124 million (10.6 percent) over the 2001 enacted level. These centers are one of many providers serving low-income and uninsured people.

Community health centers often rely on the NHSC for physicians to provide care to their patients and work with the CAP providers to coordinate care for the uninsured.

- ***Substance Abuse and Mental Health Services Administration (SAMHSA)*** — The budget funds SAMHSA at \$3.1 billion for 2002, an increase of \$101 million (3.4 percent) over the 2001 enacted level. Mental health activities are funded at \$766 million, a cut of \$16 million (2.0 percent) below the 2001 freeze level. Substance abuse activities are funded at \$2.2 billion, an increase of \$117 million (4.2 percent) over the 2001 enacted level.
- ***Cut Centers for Disease Control and Prevention (CDC)*** — For 2002, the budget funds CDC at a program level of \$4.1 billion, a cut of \$109 million (2.6 percent) below the 2001 freeze level. This includes transfers from other accounts and agencies. Areas marked for cuts include chronic disease prevention and health promotion activities (prevention of cardiovascular disease, diabetes, arthritis, and cancer) which are cut 23.3 percent below the 2001 freeze level.
- ***Childhood Immunizations*** — For 2002, the budget provides \$1.4 billion, an increase of \$42 million over the 2001 program level. This includes \$575 million in funds appropriated to CDC, and \$796 million in Medicaid funds for the Vaccines for Children (VCF) programs.
- ***Food and Drug Administration (FDA)*** — FDA's program level for 2002 is \$1.4 billion, an increase of \$123 million (9.5 percent) over the 2001 program level. User fees of \$203 million are included for 2002. New user fees totaling \$20 million for 2002 for import activities such as tracking and certifications requested by food exporters are included in the \$203 million.
- ***Food Safety and Inspection Service (FSIS)*** — For 2002, the budget provides FSIS with a program level of \$817 million, \$716 million in appropriations and \$101 million in user fees to support FSIS inspection activities. This is an increase of 2.9 percent over the 2001 program level.
- ***Indian Health Service (IHS)*** — The budget funds IHS at a program level of \$3.3 billion for 2002, an increase of \$107 million (3.3 percent) over the 2001 level. Of this amount, \$2.7 billion is appropriated directly to IHS. The remaining program funds are derived from collections or mandatory transfers to the account. For 2002, the health services program level is \$3 billion, an increase of \$151 million (5.3 percent) over the 2001 level. The facilities program level is \$324 million, a decrease of \$44 million (12.0 percent) below the 2001 freeze level.

- ***Occupational Safety and Health Administration (OSHA)*** — For 2002, the budget essentially freezes OSHA funding at the 2001 level. It funds OSHA activities at \$425.8 million for 2002, an increase of only \$4 million over the 2001 freeze level. Although the overall level is basically a net freeze level, some programs within OSHA such as the development of safety and health standards are cut (7.9 percent) and others such as the voluntary compliance efforts are increased.
- ***Mine Safety and Health Administration (MSHA)*** — For 2002, the budget freezes MSHA at the 2001 level of \$246.3 million.

Health-Related Tax Credit

- ***Refundable Tax Credit for Health Insurance*** — Beginning in 2002, the budget creates a refundable tax credit for the purchase of health insurance for those under 65 without public or employer-provided health plans. The credit equals 90 percent of the health insurance premium. However, the maximum credit is \$1,000 per individual covered by a policy, up to a maximum of \$2,000 for a family. For 2002 and 2003, the credit is limited to \$750 per individual up to a maximum of \$1,500 for a family. The full credit is effective for taxable years beginning after December 31, 2003. For those without tax liability, the tax credit is refundable.

Function 570: Medicare

Function 570 (Medicare) includes only the Medicare program. Appropriated funds are used to administer and monitor the Medicare program. Medicare benefits comprise almost all of the mandatory spending in this function.

Appropriated Program

- ***Administration of Medicare*** — For 2002, President Bush's budget funds Medicare administrative activities at \$3.5 billion, a cut of \$34 million (3.4 percent) below the 2001 level. Over ten years (2002-2011), the budget provides \$38.5 billion for this purpose. This is \$4.0 billion below the level required to maintain the current services level over the same period, according to CBO.

Medicare Solvency

- ***Shortening the Solvency of the HI Trust Fund*** — President Bush's 2002 budget raids the HI (Part A) Medicare Trust Fund to pay for programs other than the current Medicare benefits to which the Trust Fund is dedicated under existing law. The budget achieves this by diverting the HI surplus to the contingency reserve, which may be used to pay for the tax cut, the woefully inadequate prescription drug plan, and priorities other than current Medicare benefits.

By diverting the HI Trust Fund to pay for purposes other than current Medicare benefits, the budget undermines the future of the Medicare HI (Part A) Trust Fund. Although it is known that Medicare requires resources outside the Medicare program to ensure its future long-term solvency, the budget ignores this fact and taps the HI Trust Fund for purposes other than current Medicare benefits. This further depletes the resources necessary to pay for specific benefits defined in current law.

- ***The Illusion of a Medicare HI Trust Fund Deficit*** — The budget continues to deny that a Medicare HI surplus exists. The budget continues to portray Medicare financing in a manner that incorrectly portrays the use of general revenues as a deficit instead of a subsidy designed as a benefit to protect seniors from the high cost of health care services. The budget continues to ignore the fact that the House voted twice on a nearly unanimous basis to put all of the Medicare surplus into a "lockbox" so that it cannot be used for the very purposes for which it is tapped by this budget.

Medicare Benefits

- ***Prescription Drugs and Unspecified Medicare Reform*** — The budget provides two separate pools of money for the President's undefined prescription drug benefit and unspecified Medicare reform proposal. When these pools are combined, the budget provides \$153 billion over ten years (2002-2011) for a token, undefined prescription drug benefit and unspecified Medicare reform.
- ***Inadequate Resources for Prescription Drugs*** — Within the Medicare function, the budget begins to add extra resources to Medicare in 2005 (\$8.3 billion) for a prescription drug benefit coupled with Medicare reform. Over seven years (2005- 2011), Medicare spending is \$110 billion higher than it would otherwise be for these combined purposes. The President's drug plan provides assistance only to low-income seniors who are not on Medicaid. This group consists of less than half of today's seniors. About 25 million seniors are denied coverage under the plan. Most of them do not have access to affordable and reliable prescription drug coverage.

In 2002-2004, the budget includes only those increases in Medicare spending that occur under current law. The funding for this drug plan is not included in the Medicare spending total. An additional \$43 billion is included in Function 550 (Health) for this purpose in the earlier years (2002-2005).

- ***Congressional Republicans Reject Budget's Medicare Prescription Drug and Reform Numbers*** — The budget includes only \$153 billion for both an unspecified drug plan and undefined Medicare reform. Last year's House Republican plan was solely for prescription drugs. It carried a ten-year price tag of \$159 billion, and the price of prescription drugs has only increased. Last year's plan, which relied on an unstable and unreliable Medigap market to provide drug coverage to seniors, was deemed unworkable by the insurance industry itself.
 - ▶ ***House*** — This year, when asked about the President's Medicare numbers, a top House Republican, Rep. Billy Tauzin, Chairman of the House Energy and Commerce Committee said, "Everybody knows that figure is gone. It was set before CBO re-estimated last year's House bill," which he said is "already over \$200 billion and climbing." (Congress Daily, page 3, 3/22/01) At this point, there are few who believe that a credible drug plan can be developed with so few resources, let alone a drug plan combined with Medicare reform.

- ▶ ***Senate*** — On April 6, the Senate rejected the President's proposal and adopted a budget resolution that more than doubled the funding level in the President's budget for Medicare prescription drugs.

Function 600: Income Security

Function 600 consists of a range of income security programs that provide cash or near-cash assistance (e.g., housing, food, and energy assistance) to low-income persons, and benefits to certain retirees, persons with disabilities, and the unemployed. Section 8 housing and other housing assistance programs account for the largest share of discretionary spending in this function. Other key discretionary programs include the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), the Low Income Home Energy Assistance Program (LIHEAP), and the Child Care and Development Block Grant. Major federal entitlement programs in this function include Supplemental Security Income (SSI), food stamps, Temporary Assistance to Needy Families (TANF), and child care. Spending associated with the refundable portions of the Earned Income Tax Credit (EITC) and Child Credit is also included in this function.

The President proposes \$42.8 billion in discretionary funding for Function 600 for 2002, \$2.0 billion less than the amount necessary, according to CBO, to maintain purchasing power in these programs¹⁴. The budget includes few initiatives in the mandatory programs of Function 600, and only those related to the President's tax proposals produce spending changes relative to baseline over the ten-year budget window. From 2003 to 2011, the budget increases mandatory spending relative to the OMB baseline by \$7.7 billion to reflect spending associated with the refundable portions of the President's proposal to double the child tax credit.

Housing Assistance

According to the Administration, 4.9 million low-income families have worst-case housing needs, paying over half of their incomes toward rent or living in substandard conditions. The Administration's major housing initiatives focus on homeownership, but also acknowledge the need to provide additional affordable rental assistance, particularly for families at the low end of the income scale. But, as outlined below, the budget makes dramatic cuts in housing assistance programs serving the poorest families and provides less than half the average amount of new assistance provided in the past three years.

¹⁴ CBO baseline estimates presented here may overstate budget authority and outlays in the Housing Certificate Fund (HCF) account in Function 600. CBO may make a technical adjustment to the HCF baseline in conjunction with its reestimate of the President's budget later this Spring.

New Initiatives

- ! ***New Housing Vouchers*** — The budget provides \$197 million for 2002 to fund 33,700 incremental housing vouchers. This is less than half the average number of vouchers (78,000) provided in each of the past three years.
- ! ***The American Dream Downpayment Fund***— The Administration does not provide additional resources for its major new homeownership initiative for low-income families, the American Dream Downpayment Fund. Instead, the budget provides the Downpayment Fund as a \$200 million set-aside within the HOME Investment Partnerships Program, reducing resources in that program (see below).
- ! ***Other Homeownership Initiatives***. The budget includes a number of other initiatives designed to increase homeownership through a combination of investor tax credits for single-family housing, increases in the FHA multifamily loan limit, and new adjustable-rate mortgages through the FHA (see *Function 450, Commerce and Housing Credit* for additional information). However, with the exception of the FHA multifamily programs, these programs seldom serve families whose incomes are too low to support housing development and maintenance costs without additional subsidy. As such, they do not reach the poorest families, who are most at risk in today's competitive housing markets. In 1997, 77 percent of families with worst-case housing needs had incomes below 30 percent of area median. The Administration intends to implement Section 8 homeownership activities, which would reach low-income families served by the Section 8 program. All funding for these activities will come out of existing Section 8 program resources.

Funding for Current Housing Programs

- ! ***Renewals of Section 8 Expiring Contracts***— The budget promises to fulfill past commitments to renew all expiring Section 8 rental assistance contracts, requesting \$15.1 billion in new funding for this purpose for 2002. Although OMB estimates total renewal needs to be \$15.7 billion, the Administration reduces its budget request by assuming that it will achieve an offset of \$640 million. This budget contains new plans to reduce the value of local housing authorities' Section 8 contingency reserves from two-months' rent payments to just one-months' worth of rent payments. This reduction in local authorities' reserves, projected at \$640 million, may be the source of this offset.

Contract renewals allow the program to continue to serve the three million families who currently receive rental assistance, either through vouchers administered by Public Housing Authorities or through contracts directly with private landlords. Until the late 1990's, most Section 8 assistance was paid for out of long-term contracts, many as long as 20 years. These

contracts masked the annual funding required to continue to assist the same number of families. As old long-term contracts expire, the government must provide new funding to continue the same assistance. This funding pattern creates the appearance that the budget provides additional housing resources where it does not. The budget estimates that an additional \$2.2 billion (\$2.8 billion without 2002 offsets) is necessary to renew newly-expiring contracts for 2002.

! ***Tenant Protection and Other Vouchers*** — The budget provides \$203 million for tenant protection assistance, \$62 million below the amount provided for 2001. This 2002 amount does not include tenant protection vouchers for disabled persons displaced from public housing designated for the elderly. Congress provided \$40 million to support 8,000 of those vouchers for 2001. Instead, the Administration will encourage local housing providers to assist such families from within their current programs.

! ***Public Housing Capital Fund*** — The budget reduces funding for critical building repairs in public housing by \$700 million (23 percent) below a freeze. The administration justifies this cut by saying that local housing authorities can tap into currently unspent funds to address capital repair needs. HUD found \$22.5 billion in unmet capital repair needs in public housing in 1998 and determined that an additional \$2 billion in repair needs accrue each year. The unspent funds referenced by the Administration, which are actually funds committed to ongoing or planned repair work, fall far short of what is needed to make these repairs.

Maximizing the effectiveness of the Capital Fund is important. However, the budget cuts this funding in a way that is not targeted at poor performers and does not restore cuts once improvements are made. By reducing formula funding across the board, the budget penalizes all housing authorities, not just those that may be experiencing management problems. While the budget implies that this is a one-time effort to ensure that currently available funds are used up, the budget does not restore these cuts in subsequent years. These cuts, in combination with the elimination of the Drug Elimination program (see below) undermine bipartisan Congressional efforts to ensure the vitality of public housing communities and the safety of the 1.3 million families who live there, over 40 percent of whom are seniors or disabled.

! ***Public Housing Drug Elimination Program*** — The Administration does away with the Public Housing Drug Elimination Grant program, which funds anti-crime and drug, law enforcement, and security activities in public housing communities. Congress provided \$309 million for this program for 2001. The Administration justifies this cut by saying that local housing authorities can make up for this loss by tapping into the Public Housing Capital and Operating Funds or other federal anti-drug programs or by evicting tenants. As described in this section, the budget simultaneously reduces the public housing capital fund by 23 percent and overpromises a small increase in operating funds.

The Public Housing Operating Fund — For 2002, the budget provides a \$72 million (2.2 percent) increase above the amount necessary, according to CBO, to maintain purchasing power in day-to-day operating funds for local housing authorities. The budget alternately states that housing authorities may use the small increase for 2002 to make up for skyrocketing utility costs or to continue anti-crime and security activities currently funded under the Public Housing Drug Elimination Grant Program. Public housing industry experts estimate that public housing utility costs have grown by approximately \$150 million in 2001.

Revitalization of Severely Distressed Public Housing (HOPE VI) — Although the budget cites HOPE VI as a tool for reducing unmet repair needs in public housing, it freezes funding at the 2001 level of \$574 million. This program awards grants to local housing authorities to address the problems of poor-quality public housing developments.

Rural Housing and Economic Development — The budget eliminates this program, which Congress funded at \$25 million for 2001, citing duplication with the

Community Development Block Grant and other rural housing and development assistance programs. However, the budget reduces funding for several of these programs as well. See *Function 450, Community and Regional Development* for more information.

HOME Investment Partnership Program (HOME) — Although the Administration frequently cites HOME's success in creating housing opportunities for low-income families, the budget cuts its funding by 13 percent. The budget freezes the HOME program at the 2001 appropriated level of \$1.8 billion, reducing purchasing power for 2002 by \$40 million. State and local governments use this flexible program to create a range of low-income housing opportunities, including rent supplements, construction and rehabilitation of multifamily rental

Changes in Major Low-Income Housing Assistance Programs for 2002, Other than Section 8 Contract Renewals		
(\$ in Millions)		
	Compared with:	
	2001	2001
	Freeze	Inflation-Adjusted (CBO)
<i>New Initiatives</i>		
Downpayment Assistance Initiative (provided within HOME)	200	200
New Section 8 Housing Vouchers	197	197
<i>Current Programs</i>		
Public Housing Capital Fund	-700	-766
Public Housing Drug Elimination	-309	-316
Public Housing Operating Fund	150	72
Revitalization of Distressed Public Housing (HOPE VI)	0	-14
Section 8 Local Agency Reserves	-640	-640
HOME Investment Partnerships	-200	-240
Rural Housing & Economic Development	-25	-26
Homeless Assistance	0	-25
Housing for Elderly & Disabled	7	-17
HOPWA	20	13

housing, improvements to substandard housing for current owners, and assistance to new home buyers. The budget further erodes HOME program funds by carving out \$200 million for the Administration's Downpayment Assistance Program (see above).

- ! ***Homeless Assistance*** — The budget freezes funding for Homeless Assistance Grants and the renewal of Shelter Plus Care permanent housing grants at the 2001 levels (\$1.023 billion and \$100 million, respectively), reducing purchasing power in these programs by a total of \$25 million for 2002. These grants fund local projects to provide a “continuum of care” that includes outreach, assessment, emergency shelter, and housing aimed at moving homeless individuals and families to permanent housing and jobs.
- ! ***Housing for Special Populations: Housing for the Elderly and Disabled*** — The budget provides \$1.0 billion for supportive housing for the low-income elderly and disabled for 2002, a \$17 million cut compared with CBO's estimate of the amount necessary to maintain purchasing power for 2002.
- ! ***Housing Opportunities for Persons with AIDS (HOPWA)*** — The budget highlights a number of small program increases as evidence of its commitment to low-income housing. The administration provides \$277 million for the HOPWA program for 2002, \$13 million above the amount necessary to maintain current services. This increase is based on growth in the number of AIDS cases (and the commensurate increased demand for services). However, this increase is less than the amount cut from other housing programs for the disabled and the homeless (see above).

Income Assistance

- ! ***Low-Income Home Energy Assistance (LIHEAP)*** — Despite skyrocketing energy prices, the budget freezes funding for LIHEAP at the 2001 levels, including \$1.4 billion in standard program funds and \$300 million in emergency funds. This freeze reduces purchasing power in the program by \$38 million. The budget does away with the current restrictions that makes access to emergency funding contingent upon a Presidential designation as emergency funding.
- ! ***Child Care*** — The budget raises total funding for the Child Care and Development Block Grant (CCDBG) for 2002 by \$200 million over the 2001 freeze level. However, the budget carves out \$400 million of the new total (\$2.2 billion) for a new after-school care voucher initiative, reducing funding for the current child care program by \$200 million compared to a 2001 freeze. The Budget Resolution recently passed by the Senate included an additional \$870 million for CCDBG for 2002.

! ***Temporary Assistance for Needy Families (TANF)*** — TANF is the nation's primary welfare program, providing cash assistance, case management, welfare-to-work and other critical assistance to needy families with children in their efforts to find work or remain employed. TANF funds have become a particularly important source of child care funding for low-income families. In 1999, states devoted \$3 billion of their federal TANF funds to child care. The President's budget will reduce the amount of TANF funding available for child care and other assistance for low-income families in 2002 and beyond.

- ▶ ***Expiring TANF Supplemental Grants*** — The President's budget carefully enumerates spending associated with TANF activities authorized through 2002, but fails to mention that it allows TANF Supplemental Grants to expire after 2001. The Supplemental Grants provide additional funds to 17 states with low per-child grants under the standard TANF grant formula. Congress provided \$319 million for these grants in 2001. A bipartisan group of Senators successfully amended the 2002 Senate Budget Resolution to provide \$319 million for the extension of these grants through the 2002 reauthorization of welfare reform.
- ▶ ***TANF/Charity Tax Credit*** — The budget encourages states to use remaining TANF funds to cover revenue losses incurred from state income tax credits for charitable contributions, without providing funding to replace funds diverted from current activities. The diversion of these funds shifts the timing of their expenditure in the short term, but creates no net change in spending for 2002 or over the ten-year budget window.
- ▶ ***Expiring Contingency Funds*** — Congress created TANF Contingency Funds as a welfare safety net for states experiencing economic hardships. Welfare experts agree, however, that the currently-authorized Contingency Funds are an ineffective buffer against economic downturn that must be both improved and adequately funded. Despite increased evidence of state-level budget shortfalls, the budget contains no proposals or spending to fix and extend TANF Contingency Funds, which expire in 2001.

Food and Nutrition Assistance

! ***Special Supplemental Nutrition Program for Women, Infants and Children (WIC)*** — Despite its projection that unemployment rates will rise from 4.3 percent in 2001 to 4.6 percent in 2002, the Administration's budget freezes the number of low-income women, infants and children served by WIC at the 2001 level. The budget provides a total of \$4.3 billion in WIC funding to serve 7.245 million participants per month in 2002, the same number

originally projected to be served in 2001. The last time the unemployment rate averaged 4.6 percent (fiscal year 1998), WIC participation averaged 7.37 million.

Of the \$4.3 billion provided for 2002, \$4.2 billion is attributable to new 2002 appropriations and \$136 million is attributable to funds expected to be carried over from 2001. If 2001 participation rates exceed original projections, carryover funds may decline, further squeezing the WIC program budget for 2002. WIC participation in January 2001 exceeded the original 2001 projection by 14,000 participants.

- ! ***Food Stamps*** — The budget proposes no legislative changes to the food stamp program, maintaining program spending at the baseline projection of food stamp benefit requirements under current law. The budget anticipates that it will serve 18.4 million persons per month in 2002, at a cost of \$20.9 billion. However, a recent USDA report found that only 59 percent of all eligible families and 47 percent of eligible working families participate in the food stamp program. The budget maintains spending for activities that improve program administration and education, such as nutrition education, program information, electronic benefit transfer (EBT) and program integrity efforts, at 2001 levels.

The budget includes additional funding of \$900 million in 2002 and \$9.0 billion over ten years to increase its benefit reserve funds for unforeseen costs to \$1 billion in each year. This should not be considered an increase in program benefits, however, because the budget does not include any increased *spending* associated with these reserve funds. This request was also included in the 2001 budget.

- ! ***Child Nutrition*** — The budget maintains spending for the child nutrition programs (including the school lunch, school breakfast, and Child and Adult Care Feeding Programs) at current law estimates.

Tax Proposals

- ***Expansion of the Child Credit*** — The budget includes \$7.7 billion over ten years for spending associated with the President's proposal to double the child tax credit from \$500 to \$1,000 and increase the income brackets at which the credit phases out. The child tax credit is refundable for families with three or more children, but only to the extent that their income and employee payroll taxes exceed their earned income tax credit. (Refundable tax credits provide a payment to an eligible family when the value of the credit exceeds the family's tax liability. These payments are scored as federal spending in the President's budget.) House Republican tax writers altered the President's tax cut outline to provide an additional \$10.8 billion in refundable tax credit spending over ten years. See *The Bush Tax Cut* for more information on the cost and fairness of the President's tax proposals.

- ***Earned Income Tax Credit (EITC)*** — The President’s budget and tax proposals do not expand the EITC in any way. The budget continues the EITC Compliance Initiative, providing \$146 million (\$1 million above the 2001 freeze level) for 2002. This initiative seeks to reduce EITC filing error rates through early detection and prevention of erroneous claims. Complex EITC rules contribute significantly to taxpayer errors in filing the EITC. House Republicans included a \$12.9 billion expansion of EITC in House-passed tax legislation (H.R. 6). The alternative to the President’s 2002 tax package proposed by House Democrats would have expanded EITC by \$60.8 billion over ten years, eliminating the EITC marriage penalty and streamlining filing rules to reduce taxpayer errors.

Unemployment Compensation

- ***Unemployment Administration and Benefit Coverage*** The Administration’s budget assumes increases in both the general unemployment rate and the unemployment rate of workers eligible for unemployment insurance (UI) from 2001 to 2002. Despite these projections, the budget cuts funding for state administration of unemployment benefits for 2002 by \$64 million compared with 2001 inflation-adjusted levels. The budget does not include proposals or funding to address a recent GAO finding that “...because the UI program appears to provide only limited protection for low-wage workers, the role of UI as a safety net for all workers warrants attention, particularly in light of the sweeping changes to the national welfare policy.” See *Function 500 (Employment and Training Programs)* for additional discussion of cuts in employment and training programs.

Federal Employee Retirement

See *Function 950, Undistributed Offsetting Receipts*, for further discussion.

Function 650: Social Security

Function 650 includes mandatory spending to pay Social Security retirement and disability benefits to 45 million people, and appropriated funding to administer these programs.

- ***No Benefit or Payroll Tax Changes*** — The President's budget proposes no changes for Social Security benefits or payroll taxes.
- ***Administrative Funding Cut*** — The budget reduces appropriated spending for the administration of Social Security retirement, survivor, and disability benefits. Over ten years (2002-2011), budget authority is reduced by \$2.7 billion (6.6 percent), and outlays are reduced by \$2.2 billion (5.3 percent) relative to the level required to maintain current services.
- ***Long-Term Reform Left Unspecified*** — The budget does not propose any specific reforms for Social Security but notes the President's intention to establish a bipartisan commission on Social Security reform based on private stock market investment.

See *Jeopardizing the Future of Social Security and Medicare* for further discussion.

Function 700: Veterans Benefits and Services

Function 700 includes the programs of the Department of Veterans Affairs (VA), such as veterans compensation and pensions, education and rehabilitation benefits, medical care, and housing programs.

For 2002, the President's budget provides \$23.5 billion for appropriated veterans programs, which is \$3 million more than the level needed, according to CBO, to maintain current purchasing power. Over the ten-year period (2002-2011) however, the President's budget cuts appropriated programs for veterans by \$11.6 billion compared with that level. The President's budget assumes savings of \$2.6 billion in mandatory funding for veterans programs, through a variety of extensions of expiring provisions and the elimination of the Vendee home loan program.

- **Medical Care** — Overall, the President's budget includes \$22.3 billion for 2002 for veterans medical care, including \$896 million in medical care collections and millennium collections.
- **Veterans Benefits Administration** — The budget provides \$1.1 billion for the Veterans Benefits Administration, an increase of \$134 million over the 2001 freeze level.
- **National Cemetery Administration** — The budget includes \$121 million, \$12 million more than the 2001 freeze level, for the National Cemetery Administration.
- **Medical Research** — The President's budget includes \$360 million, a \$10 million increase over the 2001 freeze level, for medical research. This amount represents about one-third of the total resources available to VA for medical research and is based on the assumption that VA should increase its share of non-appropriated research funds.
- **Medical Construction** — The budget includes \$441 million for VA medical construction, \$78 million more than a freeze at the 2001 level.
- **Mandatory Savings Proposals** — The budget makes permanent several OBRA provisions which are scheduled to expire in 2003 and beyond. Together, these provisions save \$2.5 billion over the period 2003-2011. These provisions include:
 - ▶ rounding down disability compensation cost-of-living adjustments to the next whole dollar amount (saving \$996 million in 2003-2011);
 - ▶ extending authority to verify income of beneficiaries with the IRS and the Social Security Administration (saving \$48 million in 2004-2011);

- ▶ limiting VA pension benefits for Medicaid-eligible recipients in nursing homes and permitting veterans to keep the reduced monthly payment (saving \$415 million in 2009-2011, including Medicaid offset); and
- ▶ continuing three provisions regarding veterans' housing programs (saving \$841 million in 2009-2011).

The budget also eliminates the Vendee Home Loan Program, costing \$19 million in 2002 but saving \$225 million over the ten-year period (2002-2011). The vendee loan program allows the VA to sell foreclosed properties to non-veterans using direct loans. Eliminating this program may make it more difficult for the VA to sell foreclosed properties, especially properties in disrepair. The Senate budget resolution included this provision, but the House budget did not.

Is Veterans Funding in the President's Budget Adequate? Congressional Republicans Say No

While the President's budget maintains veterans funding for 2002 at 2001 levels, Congressional Republicans increased veterans funding in both the House and Senate budget resolutions above the President's request. The House Republican resolution included a \$700 million increase over the President's level for appropriated programs for 2002, and over the ten-year period (2002-2011) the House resolution surpassed the President's discretionary spending levels by \$500 million. The House Republicans also made improvements to veterans entitlement programs by raising the level of certain education and burial benefits. In total, the House Republicans added \$11.6 billion to the President's budget for veterans programs over the ten-year period (2002-2011).

The Senate increased funding for veterans programs above the President's level by \$6.4 billion for 2002, and by \$68.2 billion over the ten-year period (2002-2011).

Function 750: Administration of Justice

The Administration of Justice function consists of federal law enforcement programs, litigation and judicial activities, correctional operations, and state and local justice assistance. Agencies that administer programs within this function include the following: the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the Immigration and Naturalization Service (INS); the United States Customs Service; the Bureau of Alcohol, Tobacco, and Firearms (ATF); the United States Attorneys; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons.

The President's budget provides \$29.8 billion in appropriated funds for the Administration of Justice function for 2002, a \$1.5 billion (4.8 percent) cut below the level needed to maintain constant purchasing power. These cuts are largely applied to state and local law enforcement assistance programs.

- ! ***Community Oriented Policing Services*** — Since 1994, the Community Oriented Policing Services (COPS) program has placed over 100,000 new police officers on the street while also providing administrative and technological resources for state and local law enforcement entities. The budget provides \$855 million for the COPS program, a \$172 million cut below the 2001 freeze level. The budget cuts COPS grants used for hiring new community police officers to \$320 million, \$271 million below the 2001 freeze level.
- ! ***Federal Law Enforcement*** — The budget includes modest increases for federal law enforcement programs compared to last year's freeze level. Funding for these programs is as follows: \$3.5 billion for the Federal Bureau of Investigation (a \$270 million increase over the 2001 freeze level); \$1.5 billion for the Drug Enforcement Agency (a \$105 million increase over the 2001 freeze level); \$2.0 billion for the United States Customs Service (a \$100 million increase over the 2001 freeze level); \$804 million for the Bureau of Alcohol, Tobacco, and Firearms (a \$33 million increase over the 2001 freeze level); and \$620 million for the United States Marshals Service (a \$46 million increase over the 2001 freeze level).
- ! ***Immigration Services*** — The budget provides \$3.5 billion for the Department of Justice's Immigration and Naturalization Service (INS), a \$250 million increase over the 2001 constant purchasing power level. The budget's priorities include hiring more border patrol agents and establishing a six-month processing standard for all immigration applications.
- ! ***Additional State and Local Grant Reductions*** — The budget, while slightly increasing funding for federal law enforcement programs, substantially cuts state and local justice assistance. Cuts to state and local law enforcement assistance include the following: \$408 million for Office

of Justice programs (a \$10 million cut below the 2001 freeze level); \$400 million for Local Law Enforcement Block Grants (a \$123 million cut below the 2001 freeze level); and \$265 million for the State Criminal Alien Assistance Program (a \$135 million cut below the 2001 freeze level). The budget eliminates funding for Boys and Girls Clubs in public housing, discretionary funding for the Byrne Grant program, and many state prison grant programs. The House budget resolution adopted the President's cuts to state and local law enforcement assistance. However, the Senate adopted an amendment to restore \$1.5 billion in cuts to state and local law enforcement assistance.

- ! ***Civil Rights Enforcement*** — The budget provides \$310 million for the Equal Employment Opportunity Commission (EEOC), a \$9 million decrease below the 2001 constant purchasing power level. The budget provides \$46 million for the Fair Housing Activities, a \$1 million cut below the 2001 constant purchasing power level. The budget provides \$80 million for the Department of Education's Office for Civil Rights, maintaining the program at the 2001 constant purchasing power level.
- ! ***Legal Services Corporation*** — The budget includes \$329 million for the Legal Services Corporation, an \$8 million cut below the 2001 constant purchasing power level.
- ! ***Correctional Activities*** — The budget provides \$3.8 billion in appropriations for the federal prison system, a \$200 million increase over the 2001 constant purchasing power level. The budget lists prison construction and modernization as priorities.

Function 800: General Government

This function includes the activities of the White House and the Executive Office of the President, the legislative branch, and programs designed to carry out the legislative and administrative responsibilities of the federal government, including personnel management, fiscal operations, and property control.

President Bush's budget provides \$14.8 billion for the general government, \$200 above the level needed, according to CBO, to maintain constant purchasing power. However, the budget cuts funding by \$6.6 billion over the ten-year period (2002-2011).

- ! ***Legislative Branch*** — The budget includes \$2.7 billion, \$300 million above the level needed to maintain constant purchasing power, for the Legislative Branch. The funding is for the operations of the House and Senate as well as support agencies such as the General Accounting Office, the Library of Congress, and the Congressional Budget Office.
- ! ***Executive Office of the President*** — The budget provides \$316 million, \$4 million above the level needed to maintain constant purchasing power, for the Executive Office of the President (EXOP), which includes the White House and supporting agencies such as the Office of Management and Budget, National Security Council, and Council of Economic Advisors. The budget also includes \$454 million for the Office of National Drug Control Policy, which provides Executive branch support for drug policy development and coordinates drug control programs within fifty federal agencies and departments. The salaries and expenses account (\$65 million) for this office is included within the budget for EXOP.
- ! ***Internal Revenue Service (IRS)*** — The budget includes \$9.1 billion, \$200 million above the level needed to maintain constant purchasing power, for the Internal Revenue Service. The budget includes \$397 million in investments to modernize IRS's outdated computer systems. The budget cuts IRS funding by \$4.5 billion below the level needed, according to CBO, to maintain constant purchasing power over the ten-year period (2002-2011).
- ! ***General Services Administration (GSA)*** — The budget includes \$165 million for the GSA, \$261 billion below the level needed to maintain constant purchasing power. The GSA is the central provider of supplies, general administrative services, telecommunication services, and office space to federal agencies. Over \$138 million is requested for its Office of Government-wide Policy and \$36 million for the Office of the Inspector General. However, about \$18 billion of GSA's activities are financed by other federal agencies through its revolving funds, which provide services to agencies on a reimbursement basis.

- ! ***District of Columbia*** — The budget includes \$178 million, \$119 million below the level needed to maintain constant purchasing power, for the District of Columbia’s criminal justice system, which was assumed as a federal responsibility under the D.C. Revitalization Act. The budget also includes \$451 million in mandatory funding for federal benefit payments for retired D.C. law enforcement officers, firefighters, and teachers.

Mandatory Programs

- ! ***Payment to Alaska*** — The budget includes \$1.2 billion for payments to Alaska for drilling in the Arctic National Wildlife Refuge. See Function 950 (Undistributed Offsetting Receipts) and Function 300 (Natural Resources) for further discussion.
- ! ***Payments for Trust Accounting Deficiencies*** — The budget includes \$7 million to increase the individual Indian money (IIM) investment pool. The Office of the Special Trustee for American Indians maintains this account where activities to support management and investment of approximately \$3 billion held in trust are for tribes and individual Indians. The office also implements reform efforts and the collection, investment, disbursement, and provision of timely financial information to Indian Tribes and the individual Indian money account holders.

Function 920: Allowances

This function includes an emergency reserve fund and funding for adjustments to the legislative and judicial branches' requests.

- ! ***Emergency Reserve Fund*** — Like the February Budget Blueprint, the April budget assumes a \$5.6 billion emergency reserve for 2002 and a \$61.9 billion reserve over the ten-year period (2002-2011).
- ! ***Adjustments to the Legislative and Judicial Branches' Requests*** — President Bush's budget includes savings of \$270 million for 2002 and \$3.0 billion over the ten-year period (2002-2011) from adjustments to the legislative and judicial branch accounts for excessive funding requests. Each year, these branches make a request to OMB to cover their funding needs. OMB, in turn, adjusts the overall funding level to better reflect the historical funding levels for these branches of government. However, these reductions are reflected in this function rather than in the budget functions that contain the judicial and legislative branches to reflect comity among the three branches of government.

Function 950: Undistributed Offsetting Receipts

This function comprises major offsetting receipt items that would distort the funding levels of other functional categories if they were distributed to them. This function currently includes three major items: rents and royalties from the Outer Continental Shelf (OCS); the receipt of agency payments for the employer share of Federal employee retirement benefits; and other offsetting receipts, such as those obtained from broadcast spectrum auctions by the Federal Communications Commission (FCC).

Offsetting receipts are recorded as “negative outlays” either because they represent voluntary payments to the government in return for goods or services (e.g., OCS royalties and spectrum receipts) or because they represent the receipt by one government agency of a payment made by another.

For 2002, President Bush’s budget assumes offsetting receipts of \$49.4 billion. Over the ten-year period (2002-2011), the budget assumes offsetting receipts of \$628.9 billion.

- ! ***Federal Employee Retirement System*** — In 2002, federal agencies will pay \$41.6 billion to the federal employee retirement funds (Civil Service Retirement System, Military Retirement System, and the Federal Employees Retirement System). Employers also make payments to the Medicare Health Insurance Trust Fund and the Social Security Trust Funds on behalf of federal employees. As employees’ pay increases, agencies are required to increase their payments to these funds.
- ! ***Federal Employees Pay Raise*** — The April budget provides increases in federal civilian pay rates of 3.6 percent in January 2002. President Bush rejects pay parity between military and civilian employees, pegging the 2002 pay hike for the civil service one percent below that recommended for the military.

Proposed Legislation in Undistributed Offsetting Receipts

Spending:	2002	2003	2004	2005	2006	10-yr Total
Mandatory Outlays:						
Existing Law..	-51.8	-60.7	-62.4	-56.2	-57.8	-564.4
Proposed Legislation	2.4	0.3	-8.2	-2.7	-4.6	-14.8

- ! **Agency Contributions** — Like the President’s February Blueprint, the April budget extends a provision in current law that increases agency contributions for employees covered by the civil service retirement system. That provision is scheduled to expire in 2002. By extending the provision, the budget increases mandatory offsetting receipts by about \$3.3 billion over ten years. The higher agency contributions will have to be paid with funds appropriated to agencies for other budgetary needs. CBO estimates a savings of \$3.9 billion over ten years for this proposal.

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>10-yr.total</u>
...	...	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.2	-3.3

- ! **Arctic National Wildlife Refuge Lease Receipts** — Like the President’s February Blueprint, the April budget assumes the opening of the Arctic National Wildlife Refuge (ANWR) for oil drilling. The budget assumes leasing begins in 2004, generating \$2.4 billion in receipts to be shared 50/50 with Alaska. Both the House-passed and Senate-passed budget resolutions rejected this proposal.

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>10-yr.total</u>
...	-2.4	...	...	...	...	...	...	...	-2.4

- ! **Spectrum Auctions and Fees** — The President’s budget establishes a \$200 million annual fee on commercial television broadcasters to accrue \$1.4 billion in receipts. Under the terms of the new spectrum “lease fee,” the Federal Communications Commission (FCC) will charge broadcasters for using electromagnetic spectrum for analog television broadcasts. Individual broadcasters will be exempt from the fee upon returning their existing analog channels to the FCC (and thus completing their transition from analog to digital broadcasting). The fee will be used by the Department of Justice, the Department of the Treasury, and the Bureau of Indian Affairs to offset the cost of promoting and upgrading federal, state, and local public safety wireless communications equipment and facilities.

The budget does not propose any new spectrum auctions, but it does shift the statutory deadline for the beginning auction dates from 2000 to 2004 for 36 megahertz of spectrum formerly assigned to television channels 60–69; and from 2002 to 2006 for spectrum assigned to television channels 52–59. The original auction dates were set in the Balanced Budget Act of 1997. The acceleration does not result in any net gain or loss of auction receipts over time, but an estimated \$7.5 billion in receipts will accrue.

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>10-yr.total</u>
...	2.4	0.8	-5.3	-2.2	-4.2	-0.2	-0.2	-0.1	...	...	-9.0